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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-76452; File No. SR-Phlx-2015-93)

November 17, 2015

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Sponsored Access

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 4, 2015, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 1094, entitled “Sponsored Participants” (1) define the term “Sponsored Access” and “Customer Agreement;” (2) specify the requirements to comply with Rule 15c3-5 under the Securities Exchange Act of 1934 (“Market Access Rule”); (3) remove the requirement that each Sponsored Participant and each Sponsoring Member Organization must enter into certain agreements with the Exchange; and (4) remove PSX Rule 3211 as well as certain definitions.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the filing is to amend Rule 1094 entitled, “Sponsored Participants” to: (1) define the term “Sponsored Access,” and specifically stating that compliance with the Market Access Rule is required, and defining “Customer Agreement” to refer to the agreement that must be executed between the Sponsoring Participant and the Sponsoring Member Organization; (2) specify the requirements to comply with the Market Access Rule; (3) remove the requirement that each Sponsored Participant and each Sponsoring Member Organization must enter into certain agreements with the Exchange to streamline its rule and remove unnecessarily burdensome notice requirements to the Exchange; and (4) remove PSX Rule 3211, entitled “Application of Other Rules of the Exchange,” because Phlx Rule 1094 will be applicable to market participants trading on PSX, and remove the definitions of Sponsored Participant and Sponsoring Member Organization in Rule 1, which relate to PSX Rules.

Defining Sponsored Access

A Sponsored Participant may be a member or a non-member of the Exchange, such as an institutional investor, that gains access to the Exchange<sup>3</sup> and trades under a Sponsoring Member Organization's execution and clearing identity pursuant to sponsorship arrangements currently set forth in Phlx Rule 1094. The Exchange is proposing to define the term "Sponsored Access" to clarify the type of market access arrangement that is subject to Phlx Rule 1094. The Exchange proposes to amend Phlx Rule 1094(a) to add the following definition, "Sponsored Access shall mean an arrangement whereby a member organization permits its customers to enter orders into the Exchange's trading system that bypass the member organization's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider." This definition was derived from the Commission's description of Sponsored Access used in the release approving the Market Access Rule.<sup>4</sup> The Exchange believes that defining Sponsored Access in Phlx Rule 1094 will provide market participants with greater clarity concerning Sponsored Access and their obligations with respect to this type of access arrangement.

#### Defining Customer Agreement

The Exchange proposes to amend Phlx Rule 1094(b)(i) to define the agreement that Sponsored Participants must enter into and maintain with one or more Sponsoring Member

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<sup>3</sup> For example, a broker-dealer may allow its customer— whether an institution such as a hedge fund, mutual fund, bank or insurance company, an individual, or another broker-dealer — to use the broker-dealer's MPID, account or other mechanism or mnemonic used to identify a market participant for the purposes of electronically accessing the Exchange.

<sup>4</sup> The Market Access Rule, among other things, requires broker-dealers providing others with access to an exchange or alternative trading system to establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of providing such access. See Securities Exchange Act Release No. 63241 (November 3, 2010), 75 FR 69792 (November 15, 2010).

Organizations to establish proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange, as a “Customer Agreement.”

#### Market Access Rule

Pursuant to Phlx Rule 1094, the Sponsoring Member Organization is responsible for the activities of the Sponsored Participant. Sponsored Participants are required to have procedures in place to comply with Exchange rules, and the Sponsoring Member Organization takes responsibility for the Sponsored Participant's activity on the Exchange. Members may have multiple Sponsored Access relationships in place at a given time. The Exchange's examination program assesses compliance with Phlx Rule 1094, among other rules.<sup>5</sup> The Exchange proposes to specifically enumerate within Phlx Rule 1094 the member's obligation to comply with the Market Access Rule, which members are currently required to comply with respecting market access. The Exchange believes that specifying the obligation to comply with the Market Access Rule specifically will reinforce that Phlx Rule 1094 presupposes member compliance with the Market Access Rule.

#### Elimination of Certain Contract Requirements

At this time, the Exchange proposes to remove requirements to submit certain forms to the Exchange. There are three forms that are currently required by Phlx Rule 1094: (1) an agreement between the Sponsored Participant and the Exchange (“Exchange Agreement”); (2) an Access Agreement between the Sponsored Participant and its Sponsoring Member Organization that is provided to the Exchange; and (3) a Sponsored Participant Addendum to its Access Agreement (hereinafter “addendum”) provided to the Exchange by the Sponsoring Member Organization. Phlx Rule 1094 will continue to require that each Sponsored Participants enter

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<sup>5</sup> The Exchange has a Regulatory Services Agreement with Financial Industry Regulatory Authority (“FINRA”) to conduct regulatory examinations, among other obligations.

into a Customer Agreement with each Sponsoring member to establish proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange. These Customer Agreement(s) must incorporate the Sponsorship Provisions set forth in paragraph (ii) in Phlx Rule 1094.<sup>6</sup> The Customer Agreement remains unaffected by this rule proposal. Also, the Exchange is proposing to amend Phlx Rule 1094 to identify the aforementioned agreement as the “Customer Agreement.”

Today, only members may request connectivity to the Exchange. A member may obtain one or more ports for the purpose of providing Sponsored Access. If separate ports are requested by a member for the purpose of providing Sponsored Access, the member must request those ports from the Exchange and the member is responsible for the Sponsored Participant's activity on the Exchange. In all circumstances, the Exchange will only permit members to request connectivity to the market and the member is responsible for all customer orders submitted through the member's port.

First, the Exchange believes that completing and submitting the Exchange Agreement, Access Agreement and Addendum is unnecessarily burdensome in light of the current structure in place at the Exchange. Only members may request connectivity to the Exchange by contacting Phlx Subscriber Services. Such connection by the member requires approval by the Exchange for the purpose of testing as well as other relevant information sharing with the Exchange by the member to obtain a port. The Exchange is aware of the member responsible for each of its ports, however the Exchange may not be aware of the member's Sponsored Access

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<sup>6</sup> The Customer Agreement is required to include, among other language, all orders entered by the Sponsored Participants and any person acting on behalf of or in the name of such Sponsored Participant and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member Organization and, also, Sponsoring Member Organization is responsible for any and all actions taken by such Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant.

arrangements due to varied ways that a member may utilize a port. The Exchange believes the requirement to also complete and submit an Exchange Agreement, Access Agreement and Addendum with our Phlx Membership Department is viewed as unnecessarily burdensome by members because of the multitude of relationships the member has with various customers. Members have expressed to the Exchange that they have multiple relationships with customers, which customer relationships change over time.<sup>7</sup> Members have indicated that the necessity to continuously disclose the updated customer relationships to the Exchange is burdensome and unnecessary as they remain responsible for all activity conducted on the Exchange through a port assigned to the member. Further such information is available to the Exchange upon Exchange request from its regulatory group.<sup>8</sup>

Second, the Exchange believes that the Exchange Agreement between the Sponsored Participant and the Exchange is also unnecessarily burdensome. The requirement to provide this form was intended to give the Exchange notification that such a relationship existed and to ensure that the Sponsored Participant was informed of the Exchange's Limited Liability Company Agreement, By-Laws, Rules and procedures. The agreements also provided the Exchange with contractual privity, which would no longer exist with the removal of the Exchange Agreement. The Exchange does not believe the loss of privity with the Sponsored Participant creates a concern as the Exchange has the ability to remove access to the port<sup>9</sup> at any time if the activity of the Sponsored Participant warrants such removal. In addition, as discussed

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<sup>7</sup> For example, a broker-dealer's customers, which could include hedge funds, institutional investors, individual investors, and other broker-dealers.

<sup>8</sup> See Phlx Rule 960.2.

<sup>9</sup> Phlx Rule 911, entitled "Member and Member Organization Participation" permits the Exchange to impose upon any member or member organization such temporary restrictions upon the automated entry or updating of orders or quotes/orders as the Exchange may determine to be necessary to protect the integrity of Exchange's systems.

below, the Sponsored Participant will be made aware of its obligations through the Customer Agreement that it executed with the Sponsoring Member. As noted above, the Exchange only permits its members to request connectivity to the Exchange's System and members responsible for all trades submitted through such ports. Pursuant to Phlx Rule 1094 the trading activity of a Sponsored Participant must be monitored by the Sponsoring Member Organization for compliance with the terms of the Customer Agreement with the Sponsoring Participant.<sup>10</sup> Finally, the member continues to be obligated to comply with Phlx Rule 1094 and the Market Access Rule. The Sponsoring Member Organization is responsible for any and all actions taken by such Sponsored Participant and any person acting on behalf of or in the name of such Sponsored Participant.

Phlx Rule 1094 requires that the Sponsored Participant and the Sponsored Member Organization maintain a Customer Agreement to ensure compliance with the Exchange's Rules and obligations related to security, among other things.<sup>11</sup> Phlx Rule 1094 requires that the Customer Agreement specify that the Sponsored Participant shall maintain, keep current and provide to the Sponsoring Member a list of individuals authorized to obtain access to the Exchange on behalf of the Sponsored Participant and provide appropriate training. In addition, pursuant to the Customer Agreement provisions, the Sponsored Participant is required to take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the Exchange, or the information and data made available therein. Finally, the Customer Agreement must provide that the Sponsored Participant is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of authorized individuals,

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<sup>10</sup> See Phlx Rule 1094(b)(ii)(G).

<sup>11</sup> See Phlx Rule 1094(b)(ii)(B).

and for the trading and other consequences thereof, including granting unauthorized access to the Exchange. The contents and the requirement for a Customer Agreement are unchanged.

Pursuant to Phlx Rule 1094 the Sponsoring Member Organization must provide an Addendum to the Exchange. The Exchange believes that the Addendum provided to the Exchange by the Sponsoring Member Organization is also unnecessarily burdensome. The Addendum notifies the Exchange of the relationship between the Sponsoring Member Organization and the Sponsored Participant. However, as noted above, the Exchange's regulatory group may request information about a particular customer relationship as it deems necessary.<sup>12</sup> Further, the Exchange is made aware of the existence of ports when the Sponsoring Member Organization requests connectivity to the Exchange and the Members are responsible for all trading activity by its Sponsored Participant. In addition, the Exchange, through its Regulatory Services Agreement with the Financial Industry Regulatory Authority (FINRA), reviews for member compliance with Phlx Rule 1094 and the Market Access Rule. The Exchange has the ability to remove access to the port<sup>13</sup> at any time if the activity of the Sponsored Participant would warrant such removal.

In light of the foregoing, the requirement to complete and submit an Exchange Agreement and Addendum with the Phlx Membership Department is viewed as unnecessarily burdensome by members, who must update their customer relationships internally and provides such information upon Exchange request.

#### PSX Rules

The Exchange proposes to remove PSX Rule 3211, entitled "Application of Other Rules of the Exchange," because Phlx Rule 1094 will be applicable to market participants trading on

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<sup>12</sup> See Phlx Rule 960.2.

<sup>13</sup> See note 9.



PSX. The Exchange is adding Phlx Rule 1094 to the list of Phlx Rules for which PSX are responsible for compliance. Finally, the Exchange is removing the definitions of Sponsored Participant and Sponsoring Member Organization in Rule 1, which relate to PSX Rules.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>14</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>15</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by enhancing the risk protections available to Exchange members.

### Defining Sponsored Access

Adding a definition of Sponsored Access will assist market participants to understand the type of arrangements that are subject to Phlx Rule 1094 and such clarity will serve to promote just and equitable principles of trade. Members have indicated, and the Exchange believes, that adding the Sponsored Access definition will provide members with additional guidance with respect to Phlx Rule 1094.

### Defining Customer Agreement

Defining the agreement that Sponsored Participants must enter into and maintain with one or more Sponsoring Member Organizations to establish proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange, as a “Customer Agreement” will also serve to provide members with clarity on the agreement that the Exchange

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<sup>14</sup> 15 U.S.C. 78f(b).

<sup>15</sup> 15 U.S.C. 78f(b)(5).

will continue to require and the obligations that are contained within the Customer Agreement. This amendment is non-substantive.

#### Market Access Rule

Members continue to be required to comply with Phlx Rule 1094 and the Market Access Rule. The Exchange believes that specifically enumerating the member's responsibility to comply with the Market Access Rule will provide member's with additional guidance concerning the application of the Rule. This change is non-substantive as members are currently responsible to comply with the Market Access Rule.

#### Elimination of Certain Contract Requirements

Removing the requirement to submit and complete an Exchange Agreement, Access Agreement and Addendum will remove impediments to and perfect the mechanism of a free and open market by removing a burdensome and time-consuming requirement for members. While elimination of the Exchange Agreement requirement will also eliminate the Exchange's contractual privity with the Sponsored Participant, the Exchange notes that any potential concerns to the loss of privity are mitigated by the Exchange's ability to restrict the Sponsored Participant's access to a port<sup>16</sup> at any time it is warranted by the Sponsored Participant's trading activity. Also, members have indicated that customer relationships must be frequently updated and it is unnecessarily burdensome to continuously update the Exchange with this information that is available upon request. Connectivity to the Exchange is authorized by the Exchange and must be requested by a member of the Exchange. Such connection requires approval by the Exchange, testing and other security features as well as information sharing with the Exchange by the member. In addition, Phlx Rule 1064 delineates the terms of the required contractual

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<sup>16</sup> See note 9.

relationship between the Sponsoring Member Organization and the Sponsored Participant in the Customer Agreement, which remains in effect. The Exchange believes that the Addendum is unnecessary as Sponsoring Member Organizations must request connectivity to the Exchange as well as enter into a Customer Agreement with the Sponsored Participant. Finally, as is the case with other Exchange Rules, the Exchange examines for compliance with Phlx Rule 1064 and may request information about any customer relationship which concerns the Exchange.

The requirement to also complete and submit an Exchange Agreement, Access Agreement and Addendum with our Phlx Membership Department is viewed as unnecessarily burdensome by members, who must update their customer relationships internally.

#### PSX Rules

The Exchange's proposal to remove PSX Rule 3211, entitled "Application of Other Rules of the Exchange," and add Phlx Rule 1094 to the list of Phlx Rules for which PSX are responsible for compliance will continue to treat both Phlx equities and options members in a similar manner, pursuant to the same rule. Eliminating the definitions of Sponsored Participant and Sponsoring Member Organization in Rule 1 will avoid confusion.

#### B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act for the reasons below.

#### Defining Sponsored Access

The addition of a definition for Sponsored Access will assist market participants to understand the type of arrangement subject to Phlx Rule 1094 and such clarity will serve to promote just and equitable principles of trade.

### Defining Customer Agreement

Defining the agreement that Sponsored Participants must enter into and maintain with one or more Sponsoring Member Organizations to establish proper relationship(s) and account(s) through which the Sponsored Participant may trade on the Exchange, as a “Customer Agreement” does not create an undue burden on competition as this amendment is non-substantive and the Exchange believes that providing guidance concerning the type of arrangement subject to Phlx Rule 1094 will facilitate member compliance and does not unduly burden competition.

### Market Access Rule

In addition, the Exchange believes that specifically enumerating the member’s obligation to comply with the Market Access Rule does not create an undue burden on competition, but rather reinforces the application of the Rule. This change is non-substantive as members are currently responsible to comply with the Market Access Rule.

### Elimination of Certain Contract Requirements

Removing the requirement to complete an Exchange Agreement, Access Agreement and Addendum under Phlx Rule 1094 does not create an undue burden on competition. The Exchange believes that this requirement is unnecessarily burdensome as the Exchange’s regulatory group may request information about a particular customer relationship as it deems necessary.<sup>17</sup> Further, the Exchange is made aware of the existence of ports when the Sponsoring Member Organization requests connectivity to the Exchange and the Members are responsible for all trading activity by its Sponsored Participant. In order to obtain connectivity to the Exchange, members are required to contact Phlx Subscriber Services and request a connection to

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<sup>17</sup> See Phlx Rule 960.2.

the market. Such connection requires approval by the Exchange, testing and other security features as well as information sharing with the Exchange by the member. Only members are permitted to request connectivity to the Exchange. The requirement to also complete and submit an Exchange Agreement, Access Agreement and Addendum with our Phlx Membership Department is viewed as unnecessarily burdensome by members, who must update their customer relationships internally. Additionally, the Exchange examines for compliance with Phlx Rule 960.2 and may request information about any customer relationship which concerns the Exchange.

The Sponsoring Member Organization remains responsible for customer activity conducted on the Exchange through the Customer Agreement, among other obligations. Additionally, Sponsored Participants that obtain access to the Exchange's trading system are required to take reasonable security precautions and prevent unauthorized use or access the Exchange, including unauthorized entry of information to the Exchange,<sup>18</sup> pursuant to the Customer Agreement. Further, the Sponsored Participants is responsible to establish adequate procedures and controls that permit it to effectively monitor its employees', agents' and customers' use and access to the Exchange for compliance with the terms of this agreement.<sup>19</sup> In addition, the Exchange, through its Regulatory Services Agreement with FINRA conducts reviews of members for compliance with Phlx Rule 1094 and the Market Access Rule. The Exchange has the ability to remove access to the port<sup>20</sup> at any time if the activity of the Sponsored Participant would warrant such removal. Finally, Phlx Rule 1094 is currently

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<sup>18</sup> See Phlx Rule 1094(b)(ii)(G).

<sup>19</sup> See Phlx Rule 1094(b)(ii)(H).

<sup>20</sup> See note 9.

applicable to all Phlx members that desire to sponsor access for its customers and applies to trading in all securities on the Exchange.

### PSX Rules

The Exchange's proposal to remove PSX Rule 3211, entitled "Application of Other Rules of the Exchange," and add Phlx Rule 1094 to the list of Phlx Rules for which PSX are responsible for compliance does not create an undue burden on competition because both Phlx equities and options members will be obligated similarly to Rule 1094. Eliminating the definitions of Sponsored Participant and Sponsoring Member Organization in Rule 1 does not create an undue burden on competition because it will avoid confusion.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>21</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>22</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such

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<sup>21</sup> 15 U.S.C. 78s(b)(3)(a)(iii).

<sup>22</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-93 on the subject line.

##### Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2015-93. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be

available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2015-93 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>23</sup>

Robert W. Errett  
Deputy Secretary

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<sup>23</sup> 17 CFR 200.30-3(a)(12).



